

**SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS**

CHARLESTON, SOUTH CAROLINA

FINANCIAL STATEMENTS

YEAR ENDED DECEMBER 31, 2006

State of South Carolina



Office of the State Auditor

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May 17, 2007

The Honorable Mark Sanford, Governor
and
Mr. Joe E. Taylor, Jr., Secretary of Commerce
South Carolina Department of Commerce
Columbia, South Carolina

This report on the audit of the financial statements of the South Carolina Department of Commerce – Division of Public Railways, for the fiscal year ended December 31, 2006, was issued by McDowell-Pearman LLC, Certified Public Accountants, under contract with the South Carolina Office of the State Auditor.

If you have any questions regarding this report, please let us know.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Richard H. Gilbert Jr.", written in a cursive style.

Richard H. Gilbert, Jr., CPA
Deputy State Auditor

RHGjr/trb

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

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CERTIFIED PUBLIC ACCOUNTANTS

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INDEPENDENT AUDITOR'S REPORT

Mr. Richard H. Gilbert, Jr., CPA
Interim State Auditor
South Carolina Office of the State Auditor
Columbia, South Carolina

We have audited the accompanying financial statements of the South Carolina Department of Commerce - Division of Public Railways as of December 31, 2006, and for the year then ended as listed in the table of contents. These financial statements are the responsibility of the Division's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As discussed in Note 1, the financial statements of the South Carolina Department of Commerce - Division of Public Railways are intended to present the financial position, results of operations, and the cash flows of only that portion of the funds of the State of South Carolina that is attributable to the transactions of the South Carolina Department of Commerce - Division of Public Railways, enterprise funds of the State. These financial statements do not include other funds or enterprises of the Department or the State or any component units of the State. These financial statements do not purport to, and do not, present fairly the financial position of the State of South Carolina primary government Or financial reporting entity or of the South Carolina Department of Commerce as of December 31, 2006, and the changes in its financial position and its cash flows, where applicable, for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The South Carolina Department of Commerce - Division of Public Railway's financial statements does not adequately classify certain transactions and do not contain certain material disclosures. Also the notes to the financial statements do not disclose material information and accounting policies. These disclosures and information are not in the financial statements because it is exempted from public disclosure pursuant to the South Carolina Freedom of Information Act. Reporting of such information is essential for a fair presentation in conformity with accounting principles generally accepted in the United States of America.

Mr. Richard H. Gilbert, Jr., CPA
Interim State Auditor
South Carolina Office of the State Auditor
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In our opinion, because of the incomplete presentation and omission of note disclosures discussed in the preceding paragraph, the financial statements referred to in the first paragraph do not present fairly, in conformity with accounting principles generally accepted in the United States of America, in all material respects, the financial position of the South Carolina Department of Commerce - Division of Public Railways as of December 31, 2006, and the results of its operations and its cash flows for the year then ended.

The Management's Discussion and Analysis is not a required part of the financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

A handwritten signature in black ink, appearing to read "Michael P. Parnell". The signature is fluid and cursive, with a long horizontal stroke at the end.

Columbia, South Carolina
April 30, 2007



SOUTH CAROLINA PUBLIC RAILWAYS

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Management Discussion and Analysis

Our discussion and analysis of SC Public Railways financial performance provides an overview of the financial activities for the fiscal year ended December 31, 2006. Please read these comments in conjunction with the transmittal letter and the financial statements.

Using This Annual Report

This annual report consists of a series of financial statements. The *Statement of Net Assets*; the *Statement of Revenues, Expenses and Changes in Fund Net Assets*; and *Statement of Cash Flows* provide information regarding the activities of SC Public Railways three funds and as a whole.

The two operating divisions (funds) of the SC Public Railways are:

East Cooper & Berkeley Railroad (ECBR)

Port Utilities Commission (PUC) and Port Terminal Railroad (PTR)

All divisions are enterprise fund activities, and all are reported on the accrual basis. These statements provide information on the division's net assets, operations, and cash flows for the year ended December 31, 2006.

Reporting on the Division of Public Railways as a whole

The divisions are enterprise funds for accounting and reporting purposes. Enterprise funds are used when governmental entities charge customers for services. Enterprise funds very closely resemble the financial statements of business entities.

Financial Highlights

- Operating revenues were down in 2006 by \$325,559 or 4.6 %; this was primarily due to a decrease in the volume of rail shipments by BP on the ECBR.
- Earnings on investments were up in 2006 by \$706,544 or 132.5% this was due to earning a higher interest rate and a substantial increase the balance on deposit due to the State returning \$2,939,127 under proviso 73.14.

- > Maintenance of Way and Structure expenses were down in 2006 by \$106,567 or 13%, this was due primarily to not having a cross tie replacement project on the ECBR in 2006.
- > Maintenance of Equipment expense was up \$136,225 or 34.2 % this was due primarily to filling the Mechanical Supervisor's position in 2006 and settlement of a union contract that provided for a retroactive payment.
- Transportation expense was up \$30,021 or 2.4% this was due primarily to the increased cost of fuel.

Capital Assets:

- > Current and Other Assets were up \$7,697,724 or 30.5% this was due to an increase of cash balances.

Economic Factors and Next Year Operations

- > Traffic on the ECBR will be up in 2007 from 2006. The traffic to Nucor is projected to be about the same as 2006, but rail shipments from BP will be up slightly due to an improvement in the consistency in raw materials supply.
- Traffic on the PUC and PTR is projected to be up in 2007 over 2006 due to an increase in rail shipments by BMW.

The following analysis focuses on the net assets (Table 1) and changes in net assets (Table 2).

FINANCIAL STATEMENTS

Table 1

Net Assets

	2006	2005	Amount Change	% Change
Current and other assets, net	\$ 32,953,498	\$ 25,255,774	\$ 7,697,724	30.5%
Capital assets, net of depreciation	\$ 21,594,807	\$ 21,487,490	\$ 107,317	0.5%
Total Assets	\$ 54,548,305	\$ 46,743,264	\$ 7,805,041	16.7%
			\$ -	
Current liabilities	\$ 424,450	\$ 397,178	\$ 27,272	6.9%
Long-term debt outstanding	\$ -	\$ -	\$ -	
Total Liabilities	\$ 424,450	\$ 397,178	\$ 27,272	6.9%
Net assets:				
Invested in capital assets, net of debt	\$ 21,594,807	\$ 21,487,490	\$ 107,317	0.5%
Unrestricted	\$ 32,529,048	\$ 24,858,596	\$ 7,670,452	30.9%
Total net assets	\$ 54,123,855	\$ 46,346,086	\$ 7,777,769	16.8%

Table 2

Changes in Net Assets

		2006	2005	Amount Change	% Change
Revenues:					
Operating Revenues	\$	6,727,318\$	7,052,877	\$ (325,559)	-4.6%
Earnings on Investments	\$	1,239,696\$	533,152	\$ 706,544	132.5%
Operating Grant	\$	- \$	-	\$ -	
Other Non-Operating Revenues	\$	850,694\$	881,364	\$ (30,670)	-3.5%
Total Revenues	\$	8,817,708\$	8,467,393	\$ 350,315	4.1%
Expenses:					
Maintenance of Way & Structures	\$	710,442\$	817,009	\$ (106,567)	-13.0%
Maintenance of Equipment	\$	534,626\$	398,401	\$ 136,225	34.2%
Transportation	\$	1,305,566\$	1,275,545	\$ 30,021	2.4%
General	\$	1,430,895\$	1,469,528	\$ (38,633)	-2.6%
Other Expenses	\$	2,787\$	4,798	\$ (2,011)	-41.9%
Total Railroad	\$	3,984,316\$	3,965,281	\$ 19,035	0.5%
Other Non-Operating Expenses	\$	51,980		\$ 51,980	
Total Expenses	\$	4,036,296\$	3,965,281	\$ 71,015	1.8%
Net Income Before Transfers				\$ 279,300	6.2%
	\$	4,781,412\$	4,502,112		
Transfers	\$	2,939,127\$	26,590	\$ 2,912,537	10953.5%
Capital Contributions	\$	57,230\$	1,258,975	\$ (1,201,745)	-95.5%
Increase in Net Assets		7,777,769\$	5,787,677	\$ 1,990,092	34.4%

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

STATEMENT OF FUND NET ASSETS - ENTERPRISE FUNDS
DECEMBER 31, 2006

<u>ASSETS</u>	PUC-PTR	ECBR	INTERDIVISION ELIMINATIONS	TOTAL
Current Assets:				
Cash and cash equivalents	\$ 10,072,680	\$ 18,704,704	\$ -	\$ 28,777,384
Accounts receivable	454,416	500,559	-	954,975
Accounts receivable from other division	136,929	-	(136,929)	-
Interest receivable	105,949	187,730	-	293,679
Inventories	1,820,676	53,867	-	1,874,543
Prepayments	130,966	1,951	-	132,917
Total Current Assets	12,721,616	19,448,811	(136,929)	32,033,498
Property, Plant, and Equipment, Net of Accumulated Depreciation	14,343,507	7,251,300	-	21,594,807
Other Assets:				
Servicing rights	-	2,300,000	-	2,300,000
Accumulated amortization - Servicing Rights	-	(1,380,000)	-	(1,380,000)
Total Other Assets	-	920,000	-	920,000
Total Assets	27,065,123	27,620,111	(136,929)	54,548,305
 <u>LIABILITIES</u>				
Current Liabilities:				
Accounts payable to other division	-	136,929	(136,929)	-
Accounts payable - other	39,874	130,316	-	170,190
Payroll taxes withheld and accrued employee benefits	29,635	-	-	29,635
Accrued annual leave and benefits	84,169	107,123	-	191,292
Deferred revenue	33,333	-	-	33,333
Total Current Liabilities	187,011	374,368	(136,929)	424,450
Total Liabilities	187,011	374,368	(136,929)	424,450
 <u>NET ASSETS</u>				
Invested in Capital Assets, Net of Related Debt	14,343,507	7,251,300	-	21,594,807
Unrestricted	12,534,605	19,994,443	-	32,529,048
Total Net Assets	\$ 26,878,112	\$ 27,245,743	\$ -	\$ 54,123,855

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THIS FINANCIAL STATEMENT

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - ENTERPRISE FUNDS**
FOR THE YEAR ENDED DECEMBER 31, 2006

	PUC-PTR	ECBR	TOTAL
Operating Revenues:			
Switching fees	\$ 1,739,584	\$ -	\$ 1,739,584
Freight charges, net	-	4,361,667	4,361,667
Use of engine	39,211	142,456	181,667
Dispatching service	-	66,288	66,288
Other	378,112	-	378,112
Total Operating Revenues	2,156,907	4,570,411	6,727,318
Operating Expenses:			
Railway Operating Expenses:			
Maintenance of Way and Structures:			
Depreciation	87,778	48,937	136,715
Other maintenance of way expenses	349,087	224,640	573,727
Total Maintenance of Way and Structures	436,865	273,577	710,442
Maintenance of Equipment:			
Depreciation	77,351	32,657	110,008
Other equipment expenses	259,016	165,602	424,618
Total Maintenance of Equipment	336,367	198,259	534,626
Transportation:			
Superintendence	69,147	99,048	168,195
Yard employees	380,012	255,504	635,516
Other transportation expenses	228,727	273,128	501,855
Total Transportation	677,886	627,680	1,305,566
General:			
Administration	312,238	469,736	781,974
Insurance	264,220	269,701	533,921
Amortization of servicing rights	-	115,000	115,000
Total General	576,458	854,437	1,430,895
Total Railway Operating Expenses	2,027,576	1,953,953	3,981,529

THE ACCOMPANYING NOTES ARE AN
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SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

**STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS - ENTERPRISE FUNDS FOR
THE YEAR ENDED DECEMBER 31, 2006**

	PUC-PTR	ECBR	TOTAL
Other General Operating Expenses:			
Rent expense for leased road and equipment	\$ -	\$ 1,878	\$ 1,878
Hire of freight cars	-	909	909
Total Other General Operating Expenses	-	2,787	2,787
Total Operating Expenses	2,027,576	1,956,740	3,984,316
Operating Income	129,331	2,613,671	2,743,002
Nonoperating Revenues (Expenses):			
Rental income	565,322	100	565,422
Interest income	452,296	787,400	1,239,696
Industrial Development expenses	(51,980)	-	(51,980)
Other income, net	282,603	2,669	285,272
Total Nonoperating Revenues (Expenses)	1,248,241	790,169	2,038,410
Income Before Other Revenues and Transfers	1,377,572	3,403,840	4,781,412
Capital contributions	-	57,230	57,230
Transfer from State of SC	745,277	2,193,850	2,939,127
Increase in Net Assets	2,122,849	5,654,920	7,777,769
Net Assets			
Beginning of Year	24,755,263	21,590,823	46,346,086
End of Year	\$ 26,878,112	\$ 27,245,743	\$ 54,123,855

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THIS FINANCIAL STATEMENT

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	PUC-PTR	ECBR	TOTAL
Cash Flows From Operating Activities:			
Cash received from customers	\$ 2,080,588	\$ 4,299,439	\$ 6,380,027
Cash payments to suppliers and employees	(1,965,081)	(1,616,537)	(3,581,618)
Rents received	558,972	100	559,072
Other income received	347,591	2,669	350,260
Net Cash Provided (Used) by Operating Activities	1,022,070	2,685,671	3,707,741
Cash Flows From Non-Capital Financing Activities:			
Transfer — State of SC General fund	765,220	2,193,850	2,959,070
Net Cash Provided (Used) by Non-Capital Financing Activities	765,220	2,193,850	2,959,070
Cash Flows From Capital and Related Financing Activities:			
Acquisition and construction of capital assets	(169,822)	(134,690)	(304,512)
Net Cash Provided (Used) by Capital and Related Financing Activities	(169,822)	(134,690)	(304,512)
Cash Flows from Investing Activities:			
Investment income received	389,041	659,586	1,048,627
Net Cash Provided (Used) by Investing Activities	389,041	659,586	1,048,627
Net Increase (Decrease) in Cash and Cash Equivalents	2,006,509	5,404,417	7,410,926
Cash and Cash Equivalents, Beginning of Year	8,066,171	13,300,287	21,366,458
Cash and Cash Equivalents, End of Year	\$ 10,072,680	\$ 18,704,704	\$ 28,777,384

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THIS FINANCIAL STATEMENT

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

STATEMENT OF CASH FLOWS - ENTERPRISE FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2006

	PUC-PTR	ECBR	TOTAL
Reconciliation of Operating Income (Loss) to Net Cash Flows from Operating Activities:			
Operating income (loss)	\$ 129,331	\$ 2,613,671	\$ 2,743,002
Adjustments to reconcile operating loss to net cash provided by operating activities:			
Depreciation	165,129	81,594	246,723
Depreciation charged to sister division	39,721	(39,721)	-
Inventory items capitalized	(24,262)	-	(24,262)
Loss on sale of assets	1,144	-	1,144
Amortization	-	115,000	115,000
Nonoperating Revenues (Expenses)	795,945	2,769	798,714
(Increase) decrease in assets:			
Accounts receivable	(28,850)	(262,627)	(291,477)
Accounts receivable from other divisions	(19,509)	19,509	-
Inventories	40,949	22,524	63,473
Prepayments	(717)	(1,951)	(2,668)
Increase (decrease) in liabilities:			
Accounts payable - other	(13,275)	119,482	106,207
Payroll taxes withheld and accrued employee benefits	2,997	-	2,997
Accrued annual leave	12,117	15,421	27,538
Accrued salaries	(78,650)	-	(78,650)
Net Cash Provided (Used) by Operating Activities	\$ 1,022,070	\$ 2,685,671	\$ 3,707,741

THE ACCOMPANYING NOTES ARE AN
INTEGRAL PART OF THIS FINANCIAL STATEMENT

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2006

NOTE 1- REPORTING ENTITY

The core of the financial reporting entity is the primary government which has a separately elected governing body. As required by generally accepted accounting principles, the financial reporting entity includes both the primary government and all its component units. Component units are legally separate organizations for which the elected officials or the primary government are financially accountable. In turn, component units may have component units.

An organization other than a primary government may serve as a nucleus for a reporting entity when it issues separate financial statements. That organization is identified herein as a primary entity.

The primary entity is financially accountable if it appoints a voting majority of the organization's governing body including situations in which the voting majority consists of the primary entity's officials serving as required by law (e.g., employees who serve in an ex officio capacity on the component unit's board are considered appointments by the primary entity) and (1) it is able to impose its will on that organization or (2) there is a potential for the organization to provide specific financial benefits to, or impose specific financial burdens on, the primary entity. The primary entity also may be financially accountable if an organization is fiscally dependent on it even if it does not appoint a voting majority of the board. An organization is fiscally dependent on the primary entity that holds one or more of the following powers:

- (1) Determine its budget without another government's having the authority to approve and modify that budget.
- (2) Levy taxes or set rates or charges without approval by another government.
- (3) Issue bonded debt without approval by another government.

Based on the application of the above criteria, no component units are included in the reporting entity.

The South Carolina Department of Commerce - Division of Public Railways (Division) is part of the State of South Carolina Primary Government. The Division is reported as an enterprise fund in the State's Comprehensive Annual Financial Report.

Effective July 1, 1993, as part of the Government Restructuring Act of 1993, Code Section 13-1-1310 created the Division of Public Railways (the Division) within the Department of Commerce which is governed by the Secretary of the Department of Commerce.

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

(Continued)

The Department of Commerce is a cabinet agency operating under the governor and is subject to state laws and regulations. The Division however is not subject to the State Procurement Code or Appropriation Act. Also, the Division is not subject to State Human Resource Regulations. The Secretary of the Department of Commerce is responsible for oversight of the Division. The Division has powers of a body corporate including,

1. The power to sue or be sued, and make contracts.
2. To acquire by purchase or donation and to own, rent, lease, mortgage and dispose of real or personal property.
3. To operate, acquire, construct, maintain and control the tracks and equipment of the Division and be governed by rules and regulations of the Interstate Commerce Commission and its successor, the Surface Transportation Board.
4. To employ and dismiss the employees of the Division and to fix and to pay the compensation thereof.
5. To issue revenue bonds and other obligations, subject to approval by the State Budget and Control Board, to defray the cost of acquisition of other railroads.

The individual divisions of the South Carolina Department of Commerce - Division of Public Railways are funds of the State of South Carolina established per various sections of the Code of Laws of South Carolina. The accompanying financial statements present the financial position, results of operations, and the cash flows solely of the South Carolina Department of Commerce - Division of Public Railways and do not include any other funds of the State of South Carolina.

The South Carolina Department of Commerce - Division of Public Railways consists of two separate divisions: the Port Utilities Commission and Port Terminal Railroad, and the East Cooper and Berkeley Railroad. The functions of each of the divisions are outlined as follows:

- a. Port Utilities Commission and Port Terminal Railroad (PUC-PTR) has the responsibility of operation of the railroad yard at Charleston Harbor. Switching activity between privately owned railroad lines and seagoing vessels is its primary operation and revenue source.
- b. Operation and maintenance of the railroad line constructed in Berkeley County, South Carolina, is the primary responsibility of the East Cooper and Berkeley Railroad (ECBR). The railroad was constructed with financing by Amoco Chemicals Corporation, its major customer. This came after requests from the Commission and the State Budget and Control

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

(Continued)

Board to service the east side of the Cooper River north of Charleston, South Carolina were denied by the common carrier railroads operating in South Carolina.

NOTE 2 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES Basis

of Accounting

The Division adheres to generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board.

The South Carolina Department of Commerce - Division of Public Railways is required by State Law (58-19-10) to maintain separate accounting of its two divisions: the Port Utilities Commission and Port Terminal Railroad, and the East Cooper and Berkeley Railroad. Presented here are the financial statements of the divisions of the South Carolina Department of Commerce - Division of Public Railways.

The Division utilizes the accrual basis of accounting. Under the accrual basis of governmental accounting for enterprise funds, revenues are recognized in the accounting period in which they are earned and become measurable. Expenses are recognized in the period incurred, if measurable. Net assets are segregated into invested in capital assets, restricted and unrestricted components. The operating statement presents increases (e.g., revenues) and decreases (e.g., expenses) in net total assets. The accounting principles utilized by the Division are in conformity with the uniform system of accounts for railroad companies prescribed by the Surface Transportation Board and generally accepted accounting principles. The Division has elected to apply all Financial Accounting Standards Board statements and interpretations issued prior to December 31, 1989 unless they conflict with GASB pronouncements.

Operating income includes revenues and expenses related to the primary continuing operations of the fund. Principal operating revenues are charges to customers for sales or services. Principal operating expenses are the costs of providing goods and services and include administrative expenses and depreciation of capital assets.

Fund Accounting

The Division uses funds to report its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

(Continued)

A fund is a separate fiscal and accounting entity with a self-balancing set of accounts recording cash and other financial resources, together with related liabilities and residual equities or balances and changes therein which are segregated to carry on specific activities or attain certain objectives in accordance with applicable regulations, restrictions or limitations. Separate accounts are maintained for each fund however, in the accompanying financial statements, funds that have similar characteristics have been combined into fund types. Accordingly, all financial transactions have been reported by fund type.

Funds are classified into three categories: governmental, proprietary, and fiduciary. Each category, in turn, is divided into separate "fund types." The Division reports activities of the enterprise "fund type" under the proprietary fund category.

The Division's operations are classified as enterprise fund types within the proprietary fund classification. Enterprise funds account for activities that are self-sustaining, primarily through user charges or are used when management wants to control or measure costs of services.

Property, Plant, and Equipment

Except for track and roadway, capital assets with a unit acquisition cost in excess of \$5,000 are capitalized and depreciated over the estimated useful lives of the assets using the straight-line method of depreciation. Estimated useful lives are as follows:

Buildings	20 - 40 years
Depreciable Road	75 years
Equipment	3-25 years
Leasehold Improvements	5 years

Track and roadway are capitalized at cost and depreciation is not recognized. Replacements and repairs are expensed in the period that costs are incurred. Betterments to track and roadway are capitalized.

Leasehold improvements are capitalized and amortized over the remaining life of the lease.

Servicing Rights

The servicing rights asset is being amortized.

Inventories

Inventories consisting of materials and supplies are stated at the lower of cost or market using the weighted average method.

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

(Continued)

Policy for Uncollectible Accounts

At year-end management reviews past due accounts receivable and recognizes bad debt expense for those accounts determined to be uncollectible. This method is not in conformity with generally accepted accounting principles, which requires accounts receivable to be reported at net realizable value using an allowance for uncollectible accounts. However based on the Divisions collection history, the results from using the direct write-off method are not materially different from the allowance method.

Inter-division Transactions and Balances

Transactions among the two divisions of the Division of Public Railways have been eliminated for purposes of the combined financial statements presented herein. Administration overhead incurred is divided between PUC-PTR and ECBR. Overhead of the two Divisions is split, 56% to ECBR and 44% to PUC-PTR. Overhead expense includes superintendence, general administrative, and insurance. See Note 10 regarding eliminations.

Statement of Cash Flows

For purposes of this statement the Division considers deposits with State of South Carolina cash management pool to be cash equivalents because they are readily convertible to cash with an insignificant risk of loss in value.

Cash and Cash Equivalents

The amounts shown in the financial statements as "*cash and cash equivalents*" represent cash on deposit with the State Treasurer and cash invested in various investments by the State Treasurer as part of the State's internal cash management pool.

Because the State's internal cash management pool operates as a demand deposit account, amounts invested in the pool are classified as cash and cash equivalents. The pool includes some long-term investments such as obligations of the United States and certain agencies of the of the United States, obligations of the State of South Carolina and certain of its political subdivisions, certificates of deposit, collateralized repurchase agreements, and certain corporate bonds. Most State agencies participate in the State's internal cash management pool; however, some agency accounts are not included in the pool because of restrictions on the use of funds. For those accounts, cash equivalents included investments in short-term, highly liquid securities having an original maturity of three months or less.

The State's internal cash management pool consists of a general deposit account and several special deposit accounts. The State records each agency's equity interest in the general deposit account; however, all earnings on that account are credited to

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

(Continued)

the General Fund of the State. Agencies record and report their deposits in the general deposit account at cost. However, agencies report their deposits in the special deposit accounts at fair value. Investments in the pool are recorded at fair value. Interest earned by the agencies' special deposit accounts is posted to the agency's account at the end of each month and is retained by the agency. Interest earnings are allocated based on the percentage of an agency's accumulated daily interest receivable to the total undistributed interest received by the pool. Reported interest income includes interest earnings, realized gains/losses and unrealized gains/losses on investments in the pool arising from changes in fair value. The divisions only have special deposit accounts. Realized gains and losses are allocated daily and are included in the accumulated income receivable. Unrealized gains and losses are allocated at year-end based on the agency's percentage of ownership in the pool.

Although the State's internal cash management pool includes some long-term investments, it operates as a demand deposit account; therefore, for credit risk information pertaining to the internal cash management pool, see the deposits disclosures in Note 3.

Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 3 - DEPOSITS

All deposits of the Division are under the control of the State Treasurer who, by law, has sole authority for investing state funds.

State law requires full collateralization of all State Treasurer bank balances. The State Treasurer must correct any deficiencies in collateral within seven days. At December 31, 2006, all State Treasurer bank balances were fully insured or collateralized with securities held by the State or by its agents in the State's name.

With respect to investments in the State's cash management pool, all of the State Treasurer's investments are insured or registered or are investments for which the securities are held by the State or its agent in the State's name. Information pertaining to the reported amounts, fair values, and credit risk of the State Treasurer's investments is disclosed in the Comprehensive Annual Financial Report of the State of South Carolina.

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

(Continued)

NOTE 4 - PROPERTY, PLANT, AND EQUIPMENT

Property, plant, and equipment are stated at original cost with the exception of certain assets received from the State Ports Authority. \$451,136 of assets acquired by the Division from the South Carolina State Ports Authority during the organization of the South Carolina Department of Commerce - Division of Public Railways are stated at the cost to the State Ports Authority, less accumulated depreciation at the time of organization. The accumulated depreciation on these assets, since acquisition by the Division, at December 31, 2006 is \$30,261. Also, in 1997 the PUC-PTR Division exchanged certain assets with the State Ports Authority. The assets received from the State Ports Authority were recorded on PUC-PTR's books at book value of assets as recorded by the State Ports Authority. Amounts recorded included track and land improvements of \$1,324,462 and an engine house in the amount of \$1,182,402. Depreciation is computed on the straight-line method. In 2005 a capital contribution was recorded for land, land improvements and track on ECR. The amounts recorded were \$201,000 for land, \$308,229 for land improvements and \$749,746 for non-depreciable road. A summary of property, plant, and equipment by division is as follows:

P U C - P T R

CAPITAL ASSETS

	Balance 12/31/05	Transfer In (Out)	Additions	Deletions	Balance 12/31/06
Land	\$ 4,119,749	\$ -	\$ -	\$ -	\$ 4,119,749
Land improvements	3,295,086	-	-	-	3,295,086
Fencing	51,478	-	-	-	51,478
Buildings	2,476,621	-	5,290	-	2,481,911
Machinery and equipment	2,725,074	-	51,595	(30,436)	2,746,233
Depreciable road	-	-	64,957	-	64,957
Non-depreciable road	3,841,729	-	-	-	3,841,729
Leasehold improvements	210,038	-	-	-	210,038
Projects under construction	44,033	-	45,654	-	89,687
Total	\$ 1,763,808	\$ -	\$ 167,496	\$ (30,436)	\$ 16,900,868

ACCUMULATED DEPRECIATION

Buildings	\$ 370,950	\$ -	\$ 67,265	\$ -	\$ 438,215
Fencing	4,610	-	5,208	-	9,818
Machinery and equipment	1,819,521	-	126,223	(25,060)	1,920,684
Depreciable road	-	-	216	-	216
Leasehold improvements	182,490	-	5,938	-	188,428
Total	\$ 2,377,571	\$ -	\$ 204,850	\$ (25,060)	\$ 2,557,361

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NOTES TO FINANCIAL STATEMENTS

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(Continued)

E C B R

CAPITAL ASSETS

	Balance 12/31/05	Transfer In (Out)	Additions	Deletions	Balance 12/31/06
Land	\$ 627,419	\$ -	\$ -	\$ -	\$ 627,419
Land improvements	2,014,817	-	42,986	-	2,057,803
Buildings	883,772	-	10,116	-	893,888
Machinery and equipment	741,325	-	34,555	-	775,880
Depreciable road	945,851	-	-	-	945,851
Non-depreciable road	3,435,111	-	104,263	-	3,539,374
Projects under construction	-	-	-	-	-
Total	\$ 8,648,295	\$ -	\$ 191,920	\$ -	\$ 8,840,215

ACCUMULATED DEPRECIATION

Buildings	\$ 676,607	\$ -	\$ 16,319	\$ -	\$ 692,926
Depreciable road	304,244	-	13,413	-	317,657
Machinery and equipment	566,191	-	12,141	-	578,332
Total	\$ 1,547,042	\$ -	\$ 41,873	\$ -	\$ -

COMBINED

CAPITAL ASSETS

	Balance 12/31/05	Transfer In (Out)	Additions	Deletions	Balance 12/31/06
Land	\$ 4,747,168	\$ -	\$ -	\$ -	\$ 4,747,168
Land improvements	5,309,903	-	42,986	-	5,352,889
Fencing	51,478	-	-	-	51,478
Buildings	3,360,393	-	15,406	-	3,375,799
Machinery and equipment	3,466,399	-	86,150	(30,436)	3,522,113
Depreciable road	945,851	-	64,957	-	1,010,808
Non-depreciable road	7,276,840	-	104,263	-	7,381,103
Leasehold improvements	210,038	-	-	-	210,038
Projects under construction	44,033	-	45,654	-	89,687
Total	\$ 25,412,103	\$ -	\$ 359,416	\$ (30,436)	\$ 25,741,083

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
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NOTES TO FINANCIAL STATEMENTS

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(Continued)

ACCUMULATED DEPRECIATION

	Balance 12/31/05	Transfer In (Out)	Additions	Deletions	Balance 12/31/06
Buildings	\$ 1,047,557	\$ -	\$ 83,584	\$ -	\$ 1,131,141
Fencing	4,610	-	5,208	-	9,818
Depreciable road	304,244	-	13,629	-	317,873
Machinery and equipment	2,385,712	-	138,364	(25,060)	2,499,016
Leasehold improvements	182,490	-	5,938	-	188,428
Total	\$ 3,924,613	\$ -	\$ 246,723	\$ (25,060)	\$ 4,146,276

Depreciation expense for the period by division and in total was as follows: PUC-PTR \$204,850 and ECBR \$41,873, Total - \$246,723.

NOTE 5 - ACCRUED ANNUAL LEAVE

Non-union employees are entitled to accrue and carry forward at calendar year end a maximum of 180 days sick leave and 45 days annual vacation leave. Upon termination of employment, employees are entitled to be paid for accumulated unused annual vacation leave up to the maximum of 45 days, but are not entitled to any payment for unused sick leave. Employees do not accrue or carry forward holiday leave, compensatory time, or overtime.

Union employees can earn up to 25 days annual vacation leave per year, but do not earn any sick leave. Union employees do not carry forward any unused vacation leave. Upon termination of employment, union employees are entitled to be paid for accumulated unused annual vacation leave up to 25 days. Union employees do not accrue or carry forward holiday leave, compensatory time, or overtime.

The Division calculates the gross compensated absences liability based on recorded balances of unused leave. The entire unpaid liability for which the employer expects to compensate employees through paid time off or cash payments, inventoried at fiscal year-end current salary costs and the cost of the salary-related benefit payments is recorded as a current liability. The net change in the liability is recorded in the current year in the applicable operating department.

NOTE 6 - DEFERRED REVENUE/OPERATING LEASES/NONOPERATING RENTAL REVENUE

Effective March 4, 1994, PUC-PTR began leasing land and improvements in Spartanburg County, South Carolina for \$200,000 a year. The lease is for twenty years with two ten-year options to renew. During the lease term the lessee has the right to purchase the land and improvements for PUC-PTR's cost not to exceed \$5,000,000. The rent is paid at the beginning of each year's anniversary for one year

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

(Continued)

effective March 4, 1994 and will be adjusted annually based on 90-day treasury bill rates. The initial rent was based on a 4% annual return on the initial investment of \$2,000,000, which is why treasury bill rates will be used to determine changes in the annual rent. The Divisions total investment in this project ended up being \$4,365,595 which is the amount on which a new rental rate will be determined annually effective March 4. The annual rental rate determined at March 4, 2005 was \$200,000 and at March 4, 2006 was also \$200,000. The land is used as a railroad spur to the BMW plant. During 2006, \$200,000 was recognized as nonoperating rental revenue and \$33,333 was deferred revenue based on the terms of this agreement. Also effective March 4, 1996, the Division began receiving revenue on certain car hauls out of the BMW plant by Norfolk Southern. This amounted to \$171,330 in 2006 and is included in other income, net, nonoperating revenue. See Note 8 regarding other income, net.

PUC-PTR received rental revenue from the North Charleston Terminal Company in the amount of \$277,122 for 2006. Effective May 30, 1995, this lease was renewed. The lease is a supplemental lease to preexisting 1980 and 1986 leases. The lease expires on February 16, 2015, with automatic one-year renewals unless either party serves the other with at least twelve months notice. Under the supplemental lease each year's rent will be adjusted to correspond to the change in the national consumer price index ("CPI") for the previous year. The cost of land and non-depreciable track being leased to the North Charleston Terminal Company is \$655,881.

Minimum rentals on non-cancelable leases based on current year rates are as follows:

2007	\$	477,122
2008		477,122
2009		477,122
2010		477,122
2011		477,122
2012-2015		1,541,012
Total	\$	3,926,622

NOTE 7 - COMPENSATED ABSENCES

The following is a summary of changes in compensated absences for the year ended December 31, 2006.

	Jan 1, 2006	Increase	Decrease	Dec 31, 2006	Due Within One Year
Compensated Absences:					
PUC-PTR	\$ 72,052	\$ 13,447	\$ (1,330)	\$ 84,169	\$ 84,169
ECBR	91,702	17,114	(1,693)	107,123	107,123
Total	\$ 163,754	\$ 30,561	\$ (3,023)	\$ 191,292	\$ 191,292

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

(Continued)

NOTE 8- OTHER INCOME, NET

The category under "Nonoperating revenues (expenses)" entitled "Other income, net" is used to report miscellaneous income not related to the primary operating functions of each division. It consists primarily of fees received for sale of supplies, insurance proceeds, permits, lease, processing (clerical) services and contracted services. See Note 6 regarding \$171,330 of income from the BMW plant. See Note 11 regarding \$96,086 of offset charges received from the State Ports Authority. A breakdown by division of "Other income, net" for the year ended December 31, 2006, is as follows:

	PUC-PTR	ECBR	TOTAL
Sale of supplies, leases and contractual services:			
Between divisions	\$ -	\$ -	\$ -
With outside parties	282,603	2,669	285,272
Total	\$ 282,603	\$ 2,669	\$ 285,272

NOTE 9 - INTER-DIVISION ELIMINATIONS

The following transactions between the separate divisions have been eliminated in the combined financial statements as follows:

B A L A N C E S H E E T
DECEMBER 31, 2006

<u>Descriptions</u>	PUC-PTR	ECBR
Accounts receivable from other divisions	\$ (136,929)	\$ -
Accounts payable to other divisions	-	136,929
	\$ (136,929)	\$ 136,929

Other amounts in accounts payable for ECBR and PUC-PTR are normal monthly amounts initially paid by one division that will be reimbursed by the division receiving the goods/services.

NOTE 10 - PENSION PLANS AND EMPLOYEE BENEFIT PLANS

The Retirement Division of the State Budget and Control Board maintains four independent defined benefit plans and issues its own publicly available Comprehensive Annual Financial Report (CAFR) which includes financial statements and required supplementary information. A copy of the separately issued

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

(Continued)

CAFR may be obtained by writing to the Retirement Division, 202 Arbor Lake Drive, Columbia, South Carolina, 29223. Furthermore, the Division and the four pension plans are included in the CAFR of the State of South Carolina.

The majority of employees of the Division are covered by a pension plan through the South Carolina Retirement System (SCRS), a cost-sharing multiple-employer defined benefit pension plan administered by the Retirement Division, a public employee retirement system. Generally all State employees are required to participate in and contribute to the SCRS as a condition of employment unless exempted by law as provided in Section 9-1-480 of the South Carolina Code of Laws. This plan provides retirement annuity benefits as well as disability, cost of living adjustment, death, and group-life insurance benefits to eligible employees and retirees.

Under SCRS, employees are eligible for a full service retirement annuity upon reaching age 65 or completion of 28 years credited service regardless of age. The benefit formula for full benefits effective since July 1, 1989, for the SCRS is 1.82 percent of an employee's average final compensation multiplied by the number of years of credited service. Early retirement options with reduced benefits are available as early as age 55. Employees are vested for a deferred annuity after five years service and qualify for a survivor's benefit upon completion of 15 years credited service (five years effective January 1, 2001). Disability annuity benefits are payable to employees totally and permanently disabled provided they have a minimum of five years credited service (this requirement does not apply if the disability is the result of a job related injury). A group-life insurance benefit equal to an employee's annual rate of compensation is payable upon the death of an active employee with a minimum of one year of credited service.

Effective January 1, 2001, Section 9-1-2210 of the South Carolina Code of Laws allows employees eligible for service retirement to participate in the Teacher and Employee Retention Incentive (TERI) Program. TERI participants may retire and begin accumulating retirement benefits on a deferred basis without terminating employment for up to five years. Upon termination of employment or at the end of the TERI period, whichever is earlier, participants will begin receiving monthly service retirement benefits which will include any cost of living adjustments granted during the TERI period. Because participants are considered retired during the TERI period, they do not earn service credit, and are ineligible to receive group life insurance benefits or disability retirement benefits.

Since July 1, 1988, employees participating in the SCRS have been required to contribute 6.0 percent of all compensation. Effective July 1, 2005 the contribution rate for employees became 6.5 percent. Effective July 1, 2006, the employer contribution rate became 11.4 percent, which included a 3.35 percent surcharge to fund retiree health and dental insurance coverage. The Division's actual contributions to the SCRS for the fiscal year ended December 31, 2006 were

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

(Continued)

\$137,613 and equaled the required contributions of 7.55 percent (excluding the surcharge) for the first six months of 2006 and 8.05 percent for the last six months of 2006. Employer contributions for 2005 were \$123,277 and for 2004 were \$117,550. Also, the Division paid employer group-life insurance contributions of \$2,645 in the current fiscal year at the rate of .15 percent of compensation.

The contributions by each division is as follows:

	PUC-PTR		ECBR		Total
Retirement Plan					
Employer	72,029	\$	65,584	\$	137,613
Group Life	1,386	\$	1,259		2,645
Employer					

The amounts paid by the South Carolina Department of Commerce - Division of Public Railways for pension and group-life benefits are recorded in the appropriate operating department corresponding to the employee for whom the contributions are made.

Article X, Section 16, of the South Carolina Constitution requires that all State operated retirement systems be funded on a sound actuarial basis. Title 9 of the South Carolina Code of Laws of 1976, as amended, prescribes requirements relating to membership, benefits, and employee/employer contributions for each pension plan. Employee and employer contribution rates to SCRS are actuarially determined. The surcharges to fund retiree health and dental insurance are not part of the actuarially established rates. Annual benefits, payable monthly for life, are based on length of service and on average final compensation (an annualized average of the employee's highest 12 consecutive quarters of compensation).

The System does not make separate measurements of assets and pension liabilities for individual employers. Under Title 9 of the South Carolina Code of Laws, the Division's liability under the plan is limited to the amounts of contributions (stated as a percentage of covered payroll) established by the State Budget and Control Board. Therefore, the Division's liability under the pension plan is limited to the contribution requirements for the applicable year from amounts appropriated therefore in the South Carolina Appropriation Act and amounts from other applicable revenue sources. Accordingly, the Division recognizes no contingent liability for unfunded costs associated with participation in the plan.

At retirement, employees participating in the SCRS receive additional service credit (at a rate of 20 days equals one month of service) for up to 90 days for accumulated unused sick leave.

The General Assembly amended Chapter 1, Title 9, of the 1976 Code of Laws, relating to the South Carolina Retirement System effective July 1, 2001, with some provision effective January 1, 2001. The amendment enacted the Teacher and

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NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

(Continued)

Employee Retention Incentive Program, reducing from thirty to twenty-eight years of credible service required to retire at any age without penalty and made other changes to the South Carolina Retirement System.

The Division contributed \$348,407 this year to the U.S. Railroad Retirement System, which covers all employees. PUC-PTR contributed \$188,797 and ECBR, \$159,610. Participation is mandatory. This program is a two-tier system, which is funded, based on each employee's gross annual wages. Effective January 1, 2006, wages up to \$94,200 were funded at 6.2 percent by the Division to meet Tier 1 funding requirements and all wages were funded at 1.45 percent by the Division to meet Tier I Medicare funding requirements. The Division funded wages up to \$69,900 at 12.6 percent to meet Tier II funding requirements. Employees matched the Division's Tier 1 contribution, but paid only 4.4 percent versus the Division's 12.6 percent Tier II rate on wages up to \$69,900 for the maximum Tier II employee liability of \$3,076.

The U. S. Railroad Retirement Board, in accordance with the Railroad Retirement Acts, administers this plan.

Data concerning the actuarial status of the U.S. Railroad Retirement System as related to the Division is not available. The Division is not liable for any unfunded costs associated with the plan and recognized no contingent liability for such cost.

Post-Employment and Other Employee Benefits

In accordance with the South Carolina Code of Laws and the annual Appropriation Act, the State of South Carolina provides certain health care, dental, and life insurance benefits to active and certain retired State employees and certain surviving dependents of retirees. All permanent full-time and certain permanent part-time employees of the Division are eligible to receive these benefits. The State provides post employment health and dental benefits to employees who retire from State service or who terminated with at least 20 years of State service who meet one or more of the eligibility requirement, such as age, length of service, and hire date. Generally those who retire must have at least 10 years of retirement service credit to qualify for State-funded benefits. Benefits are effective at date of retirement when the employee is eligible for retirement benefits. These benefits are provided through applicable revenue sources for the Division's active employees and the State Budget and Control Board for all participating State retirees except the portion funded through the pension surcharge and provided from other applicable fund sources of the Division for its active employees who are not funded by State General Fund appropriations. The State finances health and dental plan benefits on a pay-as-you-go basis. Currently, approximately 29,000 State retirees meet these eligibility requirements.

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
DIVISION OF PUBLIC RAILWAYS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

(Continued)

The South Carolina Department of Commerce - Division of Public Railways recorded employer contributions applicable to these benefits for active employees in the amount of \$144,339 for the year ended December 31, 2006. Contributions by division are as follows: PUC-PTR, \$63,509 and ECBR, \$80,830. Contributions to these plans are recorded as insurance expense in the administrative costs of the divisions.

As discussed above, the Division paid \$58,204 applicable to the surcharge included with the employer contributions for retirement benefits. These amounts were remitted to the South Carolina Retirement Systems for distribution to the Office of Insurance Services for retiree health and dental insurance benefits. Contributions by Division is as follows: PUC-PTR \$30,480; and ECBR \$27,724.

Information regarding the cost of insurance benefits applicable to the Division retirees is not available. By State law, the Division has no liability for retirement benefits. Accordingly, the cost of providing these benefits for retirees is not included in the accompanying financial statements.

In addition, the State General Assembly periodically directs the Retirement Systems to pay supplemental (cost of living) increases to retirees. Such increases are primarily funded from System's earnings; however, a portion of the required amount is appropriated from the State General Fund annually for the SCRS benefits.

Deferred Compensation Plans

Several optional deferred compensation plans are available to State employees and employers of its political subdivisions. Certain employees of the Division have elected to participate. The multiple-employer plans, created under Internal Revenue Service code sections 457, 401(k), and 403(b) are administered by third parties and are not included in the Comprehensive Annual Financial Report of the State of South Carolina. Compensation deferred under the plans is placed in trust for the contributing employee. Employees may withdraw the current value of their contributions when they terminate State employment. Employees may also withdraw the current value of their contributions prior to termination if they meet requirements specified by the applicable plan. The State has no liability for losses under the plans.

NOTE 11 - TRANSACTIONS WITH STATE ENTITIES AND SISTER DIVISIONS

PUC-PTR allocated to ECBR \$39,721 of depreciation expense as part of the administrative overhead expense allocation between the two divisions explained in Note 2. This is shown as depreciation expense under general railway operating expenses of ECBR.

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DECEMBER 31, 2006

(Continued)

The Ports Authority pays PUC-PTR monthly offset charges. In 1988, the S.C. State Ports Authority took possession of a certain area of trackage at the Port Terminal Railroad which caused PUC-PTR to incur additional operating costs. The Ports Authority continues to pay PUC-PTR for the additional costs, which equals the initial annual base amount of \$58,615 adjusted for changes in the consumer price index. The amount paid to PUC-PTR was \$96,086 in 2006 and is included in other non-operating revenues. See Note 8 regarding other income, net.

As described in Note 9, the Divisions provide each other with certain services.

As provided by South Carolina 2007 Appropriations Act Proviso 73.14 PUC-PTR received \$745,277 and ECBR received \$2,193,850 from the general fund of the State of South Carolina. These amounts are shown as a transfer from the State of SC in the Statement of Revenues, Expenses and Changes in Fund Net Assets.

Services received at no cost from State agencies include banking and investment functions from the State Treasurer, and, retirement and insurance plan administration from various divisions of the State Budget and Control Board. The Division had financial transactions with various State agencies during the year. Payments made in 2006 to the State Budget and Control Board were primarily for insurance coverage.

NOTE 12 - OPERATING LEASES

The Division's Port Utilities Commission and Port Terminal Railroad Division, and the South Carolina State Ports Authority entered into an agreement, effective July 1, 1976, allowing the South Carolina Department of Commerce - Division of Public Railways to lease the building known as the Shore Patrol Office for a period of twenty (20) years. The Division is now occupying these premises on a month-to-month lease. The monthly rental charge is \$300. The Division incurred \$3,600 for rental of this building in 2006. The Division is required to carry insurance for property damage and to maintain and repair the leased building.

The only other lease payment is \$1,878 per year by ECBR to the U.S. Department of Agriculture for right of way for the railroad on National Forest Land. This lease is for an indefinite term.

Total operating lease expense in 2006 was \$5,478. Minimum future payments of the Division for the lease with the indefinite terms as of December 31, 2006 are as follows:

	ECBR	
2007	\$	1,878
2008		1,878
2009		1,878
2010		1,878
2011		1,878
Totals	\$	9,390

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(Continued)

NOTE 13 - RISK MANAGEMENT

The Division is exposed to various risks of loss and maintains State or commercial insurance coverage for certain risks. Management believes such coverage is sufficient to preclude any significant uninsured losses to the Division. Settled claims have not exceeded this coverage in any of the past three years. There were no significant reductions in insurance coverage from coverage in the prior year. The Division pays insurance premiums to certain other State agencies and commercial insurers to cover risks that may occur in normal operations. The insurers promise to pay to or on behalf of the insured for covered losses sustained during the policy period in accord with the insurance policy and benefit program limits. State management believes it is more economical to manage certain risks internally and set aside assets for claim settlement. Several State funds accumulate assets and the State itself assumes substantially all risks for the following:

1. Claims of covered public employees for health and dental insurance benefits (Office of Insurance Services); and
2. Claims of covered public employees for long-term disability and group-life insurance benefits (Office of Insurance Services).

Employees elect health coverage through either a health maintenance organization or through the states self-insured plan. All of the other coverages listed above are through the applicable state self-insured plan except dependent and optional life premiums which are remitted to commercial carriers.

The Divisions and other entities pay premiums to the States Insurance Reserve Fund (IRF) which issues policies, accumulate assets to cover the risks of loss and pays claims incurred for covered losses related to the following Division assets, activities, and/or events.

1. Real property, its contents and other equipment - Coverage per loss for real property is based on current valuation with a \$250 deductible. Eighty percent of each loss is covered by the IRF.
2. Motor vehicles - Coverage is up to \$1,000,000 per loss with a \$200 deductible for comprehensive coverage and \$500 for collision.
3. Torts

The IRF is a self insurer and purchases reinsurance to obtain certain services and specialized coverage and to limit losses in the areas of property, boiler and machinery, and automobile liability. The IRF's rates are determined actuarially.

State agencies are the primary participants in the State's Health and Disability Insurance Fund and in IRF.

SOUTH CAROLINA DEPARTMENT OF COMMERCE -
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(Continued)

The Division purchases insurance, which covers all divisions, through private carriers for liability and property loss on road and locomotive assets, and employee fidelity bond insurance coverage for all employees to cover losses of up to \$100,000 arising from theft or misappropriations. Management believes based on exposure and likelihood of loss that this coverage is sufficient.

The Division has purchased insurance, which covers all divisions, from a private carrier for liability under the Federal Employers Liability Act (FELA), which is similar to workmans compensation insurance and covers all employees. The Division has elected to retain the risk of loss on this coverage for up to the first \$100,000 of costs per claim. Management has elected to retain this amount of risk because it feels that it is more economical than paying additional premiums for increased coverage. In the current year, no expenses were incurred on claims under the policy. Also a tax is paid to the U.S. Railroad Retirement System to cover all the Division employees for unemployment benefits.

The Division has recorded insurance premium expenses in the applicable operating department corresponding to the employees for whom contributions are made or in insurance expense under administrative costs.

The Division's management believes risk of loss from business interruption is a remote likelihood, however does have a \$250,000 coverage through their equipment liability coverage policy for this risk.

The Division did not incur any significant losses in 2006 for self insured risks. Also, no reserves have been established for potential losses for self insured risks. The Division reports such expenses if information prior to issuance of the financial statement indicates that it is probable that an asset has been impaired or a liability has been incurred on or before fiscal year end and the amount is reasonably estimable. The recorded expense is valued at an estimate of the ultimate cost of settling the claim or of the asset loss.

NOTE 14 - GASB 31 ADJUSTMENTS

Effective January 1, 1998, the Division adopted Governmental Accounting Standards Board (GASB) Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*. This statement requires that most investments of governmental entities be stated at fair value rather than at cost. For internal (and external) investment pools, this statement requires the equity position of each fund that sponsors the pool to be reported as assets in those funds. The unrealized gains included in cash and cash equivalents at December 31, 2006, were \$11,571 for PUC-PTR and \$21,756 for ECBR.

SOUTH CAROLINA DEPARTMENT OF COMMERCE
DIVISION OF PUBLIC RAILWAYS

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2006

(Continued)

NOTE 15 — ENTERPRISE FUND INFORMATION

Charges for services	\$	7,578,012
Operating grant and contributions		1,239,696
Capital grants and contributions		57,230
Less: expenses		(4,036,296)
Net program revenue		4,838,642
Transfers		2,939,127
Change in net assets		7,777,769
Net assets - beginning		46,346,086
Net assets - ending	\$	54,123,855

This information is included only for the State of South Carolina GAAP reporting purposes and includes terminology and classifications which are not consistent with the financial statements.